



Tax Facts

Exempt Entities

**Sales Tax
Fact Sheet #155**

August 1998

This fact sheet explains which items are taxable when sold to various sales tax exempt entities and which are not. It also explains which sales made by these various groups are subject to the sales tax. Since it's impossible to cover every conceivable situation, specific questions can be directed to 1-800-TAX-9188. The state sales and use tax rate is 4%.

Sales Tax Exempt Entities

Retailers and other types of suppliers are exempt from paying sales tax on the gross receipts from sales to:

- The U.S. Government and its political subdivisions
- The State of South Dakota and its cities, counties and townships
- The government of any other state in the U.S. or the District of Columbia if that state provides a similar exemption for South Dakota governments
- School districts and other public or municipal corporations
- Tribal governments
- Religious educational institutions
- Non-profit accredited/private educational institutions (must be registered with the Department of Revenue)
- Non-profit charitable hospitals licensed by the Department of Health
- Non-profit charitable relief agencies recognized by the federal government and the S.D. Department of Revenue



Membership Organizations

Membership organizations such as the YMCA, YWCA, Boy Scouts, Lions Club, or Jaycees are exempt from sales tax on gross receipts from sales of services made **BY** them and from the sale of their membership fees.

However, gross receipts from sales of either services or tangible personal property made **TO** such organizations are taxable and the gross receipts from sales of tangible personal property **BY** such organizations are taxable.

Ambulance and volunteer fire departments

Gross receipts resulting from sales **TO** municipal or volunteer fire departments and volunteer ambulance departments are exempt from sales or use tax, provided the items purchased are for use by the department and title to the property will be retained by the department.

Churches

Churches are **NOT** exempt organizations; therefore, they are subject to sales tax on all purchases made for use by the church, its clergy and members.

Civic and nonprofit associations

Certain gross receipts resulting from the sale of tangible personal property **BY** civic and nonprofit associations are exempt from the state and local sales taxes. Sales **TO** these associations are generally subject to the state and municipal sales tax. Exempt receipts include:

- Sales of tickets and admissions to the grounds and grandstand attraction of state, county, district and local fairs
- Admissions to nonprofit historic sites and repertory theater performances operated by nonprofit organizations
- Admissions to community-operated celebrations and shows sponsored by a Chamber of Commerce or other similar nonprofit organization are if the county, city or town in which the activity takes place officially sponsors the activity and no charge is made for the use of the county or city facilities or services
- Admissions or receipts from activities sponsored and operated by colleges, elementary schools, high schools, or related clubs and supporting organizations when the **ENTIRE** net proceeds are spent for educational purposes. Sales tax must be paid on all purchases of items used or sold



at the event (i.e. If the junior class is selling concessions at a school event, it would not need a sales tax license if the sales tax was paid at the time the candy, pop or other items were purchased from the vendor.)

- Gross receipts from sales made by religious, benevolent, fraternal, youth or charitable activities when the net proceeds are used for religious, benevolent, fraternal or charitable purposes or for youth associations and the event is for not more than three consecutive days. Sales tax must be paid on items or services purchased by the organization for the organization unless the organization has obtained a sales tax license and is paying sales tax on the receipts resulting from the sale.
- Charges for entry fees for engaging in tournaments, contests, and league activities. However, receipts from the purchase of tangible personal property or services for use in the activity are subject to the sales tax.

Purchases by Exempt Organizations

Three things must occur before purchases of tangible personal property are exempt from sales tax. First, an exemption certificate or government voucher is presented *at the time of the purchase* by an authorized official of the exempt entity and maintained in the business records for three years. Second, payment is made from the entity's own funds. And third, title to the property is retained in the name of the entity. If an employee purchases items or services without an official voucher and is later reimbursed, those charges **ARE SALES TAXABLE** at the time of purchase.

All certificates and vouchers, *except* those furnished by the U.S. Government; the State of South Dakota; counties, cities, and townships; nonprofit charitable hospitals; and public school districts should have the exemption number of the organization on the certificate. The exemption number will contain either an RG, RA, RS or RE (i.e. 00-000000000E-RA-001). Where sales of the same nature are continuous, a blanket exemption certificate may be accepted for up to one year.

This exemption from sales tax does not extend to purchases for the personal use of officials, members, or employees of the exempt organization, or for purchases to be used in the operation of a taxable business located in

an exempt institution. Businesses such as gift shops, cafes, dining rooms, and bookstores must secure a sales tax license and report sales tax on their gross receipts.

Application for exempt status as a relief agency

An organization claiming exemption from sales and use taxes as a relief agency must comply with the following:

1. It must be recognized by the Internal Revenue Service as an I.R.C. Section 501(c)(3) organization.
2. It must be a non-profit charitable organization, dedicating its resources exclusively to the relief of the poor, distressed, or underprivileged.
3. It must submit a properly completed exemption application (form ST-130) to the Business Tax Division of the South Dakota Department of Revenue, along with copies of the organization's bylaws, articles of incorporation, the IRS Section 501(c)(3) designation, a copy of form 1023 from the IRS, and the constitution and articles of association.

If an exemption is granted, a number will be issued to that organization (i.e. 00-000000000E-RA-001). This number must be included on an exemption certificate and provided to all retailers from whom the organization makes purchases. The exemption must be renewed every five years by filing an updated application with the Business Tax Division.

If any change affecting its exempt status occurs in an organization, the organization must notify the Department of Revenue in writing. The Department of Revenue may audit the organization at any time to verify its exempt status. Upon loss of its exempt status, the organization becomes liable for payment of sales tax on all items purchased for use by the organization.

Have additional questions you'd like answered? Just contact our toll-free help line at:

1-800-TAX-9188

SD Dept. Of Revenue
Business Tax Division
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We're on the web: <http://www.state.sd.us/revenue>

